

Review of Report by Zaretsky and Associates

The report by Zaretsky and Associates asserts that there will be a need for beds in downtown San Jose by 2015-20 and that the City of San Jose should, therefore, reserve land for a new hospital in the central area. It bases the finding on three key assumptions, each of which is problematic. First, it uses a flawed bed demand methodology. Second, it makes the assumption that hospitals may not make the expansions they plan even if there is demand, when experience shows that hospitals do not allow this to happen. Third, it assumes that the City can find adequately sized land for a modern hospital, when the amount of land needed is not practically available.

Bed Planning Methodology

The Zaretsky report uses a bed planning methodology that has 5 problems:

1. Failure to Recognize the Complexity of the Hospital Market. The report attempts to do healthcare planning for a complex, diverse and mobile regional population of 1.7 million people served by 10 hospitals by carving out an arbitrary sub-regional population of 195,000 and by considering the capacity of just 3 hospitals. Because of the arbitrary shape of the geographic area selected in the Zaretsky report, only one of the three hospitals studied by Zaretsky is located within the geographic area.
2. Failure to Consider How the Downtown Population Uses Hospitals. The report fails to take into account the fact that the downtown population—both before and after the closure of San Jose Medical Center—makes very significant use of a wide range of hospitals beyond the three in the Zaretsky report. Patients in the downtown area choose other hospitals because of their insurance plans, the preferences of their physician, their personal preferences and the specialized services they need.¹
3. Failure to Consider the Role of Hospitals Like Kaiser and Stanford. The report uses a flawed method of measuring the services provided to the downtown population by key hospitals such as Kaiser Santa Clara, Kaiser Santa Teresa, Good Samaritan and Stanford.
4. Failure to Include Capacity at Other Hospitals. The method in the Zaretsky report ignores existing capacity and increasing capacity at the other 7 hospitals. The problems with the method are highlighted by the fact that Kaiser has just expanded its facility, in part to meet the growing demand for hospital services from the downtown and North San Jose area, and the Zaretsky report method fails to count the capacity just brought on line at Kaiser.
5. Adoption of Use Rate Trend That Accelerates to a Very High Level. The report assumes that the hospital use rate (patient days per 1,000 population) will increase significantly—39% between 2005 and 2030. This appears to be based on the assumption that the introduction of new medical technologies allowing shifts to

¹ See Appendix C.

outpatient settings and shorter lengths of hospital stay, which has moderated hospital use over the last 20 years, will not apply in the years ahead.

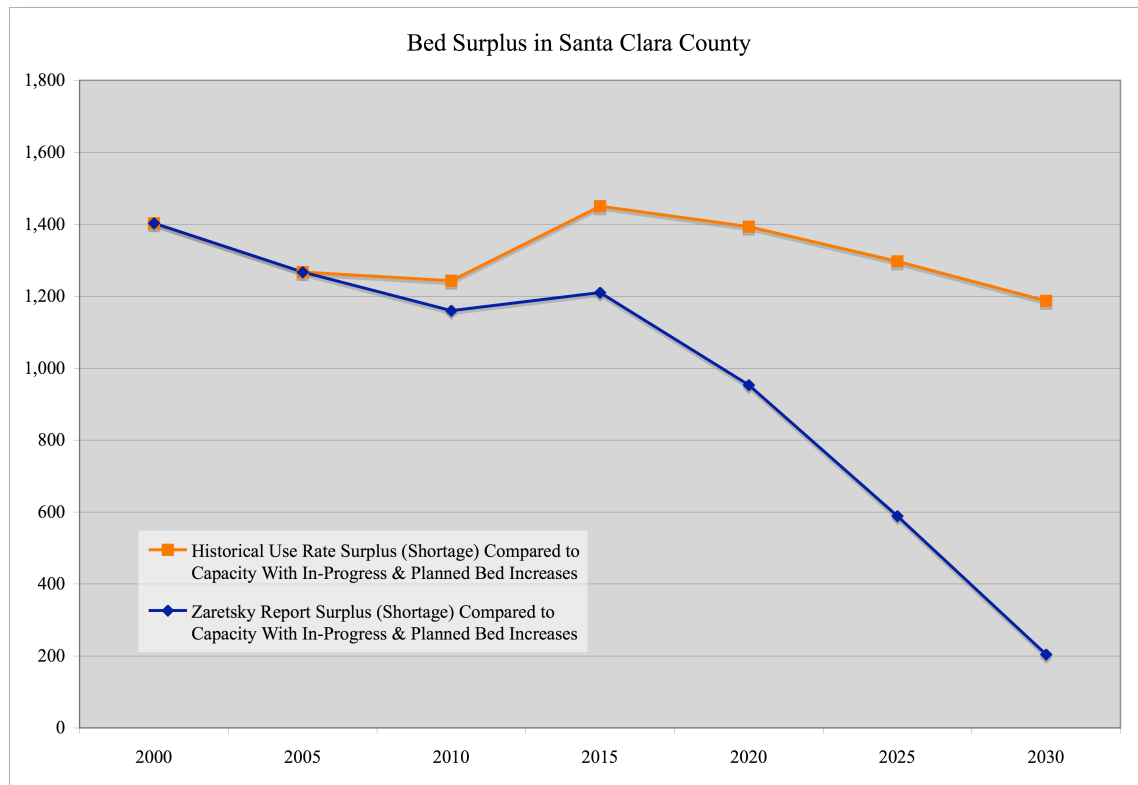
Even if the ambitious use rate used in the Zaretsky report were adopted by the City, there would still be a significant surplus of beds in Santa Clara County even as far out as 2030. Further, it is inconsistent with regional health planning principles that evolved from the era of Health Service Areas and Certificate of Need to carve out and isolate a small portion of a service area for analysis as has been done in the Zaretsky report.

The following tables and charts show County hospital demand forecasts (one based on the ambitious rate forecast proposed by the Zaretsky report and a more realistic forecast) with a comparison to current and planned capacity.²

Year	2000	2005	2010	2015	2020	2025	2030
County Population (Zaretsky 2004 Report Table 15)	1,682,585	1,788,299	1,887,388	1,977,687	2,089,368	2,175,767	2,274,163
Zaretsky Report Use Rates							
County Patient Days per 1,000 (Zaretsky 2004 Report)	323	326	339	361	388	421	452
County Patient Days (Zaretsky 2004 Report Table 18)	543,845	583,465	639,620	714,752	809,711	916,097	1,028,374
County Average Daily Census (Based on Zaretsky Forecast)	1,490	1,599	1,752	1,958	2,218	2,510	2,817
County Bed Need @ 80% Occupancy Based on Zaretsky Forecast	1,862	1,998	2,190	2,448	2,773	3,137	3,522
Historical Use Rates							
County Patient Days Per 1,000 (Historical Use Rate)	323	326	326	326	326	326	326
County Patient Days (Based on Historical Use Rate)	543,845	583,465	615,288	644,726	681,134	709,300	741,377
County Average Daily Census (Based on Historical Use Rate)	1,490	1,599	1,686	1,766	1,866	1,943	2,031
County Bed Need @ 80% Occupancy (Based on Historical Use Rate)	1,862	1,998	2,107	2,208	2,333	2,429	2,539
Current Licensed Beds	3,265	3,265	3,265	3,265	3,265	3,265	3,265
Licensed Beds With In-Progress & Planned Increases	3,265	3,265	3,350	3,658	3,726	3,726	3,726
With Zaretsky Use Rate Forecast							
Surplus (Shortage) Compared to Current Capacity	1,403	1,267	1,075	817	492	128	(257)
Surplus (Shortage) Compared to Capacity With In-Progress & Planned	1,403	1,267	1,160	1,210	953	589	204
With Historical Use Rate Forecast							
Surplus (Shortage) Compared to Current Capacity	1,403	1,267	1,158	1,057	932	836	726
Surplus (Shortage) Compared to Capacity With In-Progress & Planned	1,403	1,267	1,243	1,450	1,393	1,297	1,187

² See Appendix B.

The following chart shows the magnitude of the bed surplus in Santa Clara County.



As a result of the flaws in its methodology, the Zaretsky report calls for establishing a new hospital to further increase the over-supply of beds in Santa Clara County in an effort to address the possibility of a bed shortage that only theoretically could develop at a limited number of hospitals.

Hospitals Adding Needed Bed Capacity

The most recent Zaretsky report assumes that San Jose area hospitals may not provide the capacity the community needs. This is an unfounded concern. Experience shows that hospitals in urban areas always build the capacity that communities need. There are no examples that can be found of a group of hospitals in an urban area of California failing to build bed capacity for which there is demand and requiring a third party (such as a city government) to intervene to facilitate the establishment of another new hospital. While it is not practical to predict how any *particular* hospital will develop, objective experience shows that, *as a group*, hospitals always meet/exceed community need for beds. As detailed below, studies of San Francisco/Marin, Sacramento/Placer, Alameda/Contra Costa/Solano, San Mateo, and Napa/Solano show that these hospitals had slack capacity 10 years ago and now—after tremendous growth in population and changes in the hospital field—still have slack capacity, which only serves to add to the cost of healthcare.

1995	Licensed Beds	Available Beds	Staffed Beds	Occupied Beds
San Francisco/Marin	4,364	2,843	2,617	1,682
Alameda/Contra Costa/ Solano	5,450	4,763	4,195	2,818
San Mateo	1,491	1,210	995	679
Sacramento/Placer	3,235	2,912	2,836	1,983
Napa/Sonoma	1,124	1,057	1,017	603
Total	15,664	12,785	11,660	7,763

2006	Licensed Beds	Available Beds	Staffed Beds	Occupied Beds
San Francisco/Marin	4,132	3,348	3,011	2,178
Alameda/Contra Costa/ Solano	5,716	5,401	4,413	3,582
San Mateo	2,128	1,753	1,621	1,256
Sacramento/Placer	3,310	3,125	2,978	2,311
Napa/Sonoma	1,298	1,214	1,052	705
Total	16,583	14,840	13,076	10,032

Thus, the various recent changes in hospital bed capacity in the metropolitan San Jose area (including the closure of San Jose Medical Center) have been part of a general pattern of correcting for a serious excess of capacity—a healthy change, not a worrisome change.

Land for Modern Hospital

Since the Zaretsky report assumes that there is a real probability that existing hospitals will not provide needed capacity, it recommends the City should reserve a hospital site for a new hospital of at least 150 beds to be operational by 2015-2020. This assumes that it is practical to assemble a large enough area for a modern hospital in central San Jose. The Zaretsky report has lead City staff to conclude that 11 acres is large enough to accommodate a new hospital of up to 150 beds. This is incorrect:

- No new hospital in California in recent history has been built on as little as 11 acres.
- Even when including those hospitals that are older and able to operate under “grandfathered” building standards, only 15% of the hospitals operate with such a small site.³
- By seeking a site for a new hospital on 11 acres or less, the City would be handicapping such a future hospital with serious operational and financial disadvantage since all other urban hospitals in the County are on far more land (the two smallest sites are Los Gatos Community at 14 acres and O’Connor at 17 acres. If they were built to modern building standards, they would need significantly more land).

³ If there is any doubt about this finding, the City can easily engage an independent hospital architectural and planning firm to provide a second opinion.

Appendix A - Background

Reports by Zaretsky and Associates have provided a range of findings about bed need and capacity:

April 2007: Planned Increases Can Accommodate Until 2015-20. In a report presented April 18, 2007 entitled “San Jose Medical Center Site Options – Health Care Issues,” Zaretsky and Associates noted that “while the downtown population is likely to face a bed shortage in a few years, planned increases at Regional and available beds at O’Connor Hospital and Valley Medical Center could accommodate downtown needs until 2015-2020.”

June 2007: Not A Need. At the June 20, 2007 SAC meeting Dr. Zaretsky stated that there would not be a bed need in the downtown area for the foreseeable future, assuming all licensed beds would be activated.

July 2007: City Should Reserve Land For New Hospital By 2015-20. On July 17, 2007 Zaretsky and Associates submitted: “Pros and Cons of Holding Space for a New Downtown Hospital – A Healthcare Perspective”. This includes the following recommendation:

“The City should commit to reserving an appropriate site for a new hospital in an area readily accessible to downtown residents and future residents of areas expected to experience considerable growth, in anticipation of a hospital becoming operational by 2015-2020...” in order to “...put the City on record acknowledging that additional hospital capacity *will be needed* (emphasis added) between 2015 and 2020 to meet acute-care needs of downtown population”, and “failure to designate a site could encourage local hospitals to maintain a capacity shortage to increase their negotiating leverage with private health plans and Medi-Cal.”

Appendix B - Bed Capacity for Santa Clara County

Hospital	Licensed Acute Beds	Planned Addition	Year of Addition	Total Licensed Beds 2013
Regional	204	44, 34, 68	2008, 2013, 2020	350
O'Connor	312	120		432
Valley	524			524
Subtotal	1,040	266		1,306
Los Gatos	143			143
El Camino	310			310
Good Samaritan	339	50	2013	389
Stanford/Packard	847	104	2013	951
St. Louise	72			72
Kaiser Santa Clara	286	41	2007	327
Kaiser Santa Teresa	228			228
Total	3,265	461		3,726

Appendix C: Service to Downtown Population By Other Hospitals

